

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 AGRE-00 ITC-01 ARAE-00 FTC-01 JUSE-00
PRS-01 /081 W
-----011925Z 014547 /47

P R 011700Z APR 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 851
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 2552

E.O. 11652: N/A
TAGS: EINV, EIND, BR
SUBJ: BRAZILIAN POLICY TOWARD FOREIGN INVESTMENT

REF: RIO A-18

1. SUMMARY. A GOB INVESTMENT POLICY OFFICIAL WHO SOUGHT A WIDER GOVERNMENTAL ROLE IN APPROVALS FOR FOREIGN INVESTMENT HAS BEEN FIRED -- BUT HE WAS REPLACED BY A TOUGH, NATIONALISTIC OFFICIAL. IN OUR JUDGMENT, GOB POLICY CERTAINLY WILL REMAIN IN PRINCIPLE TO ATTRACT FOREIGN INVESTMENT, WHICH IS CRITICAL TO BRAZIL'S ECONOMIC AND BALANCE-OF-PAYMENTS STRATEGIES. NEVERTHELESS, THE GOB IS NOT LIKELY TO REMAIN ENTIRELY INSENSITIVE TO PRESSURES BY BRAZILIAN BUSINESSMEN FOR:
-- GREATER CONTROL OVER FOREIGN INVESTORS, AND GREATER RESTRICTIONS ON THEIR PARTICIPATION IN CERTAIN SECTORS;
AND,
-- ELIMINATION OF, OR COMPENSATION FOR THE FINANCIAL AND OTHER ADVANTAGES THAT FOREIGN INVESTORS ARE PERCEIVED TO HAVE (E.G., BETTER ACCESS TO FOREIGN CREDIT).
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MEASURES ANNOUNCED BY PRESIDENT GEISEL ON MARCH 30 REPRESENT AN OBVIOUS RESPONSE TO SUCH PRESSURES (SEPTTEL).
END SUMMARY.

2. MAINLY BECAUSE OF CONCERNS BY BRAZILIAN INDUSTRIALISTS THAT MULTINATIONALS WERE TAKING OVER BRAZIL'S KEY MANUFACTURING SECTORS, VARIOUS GOB ENTITIES HAVE BEEN

STUDYING WAYS TO "RESERVE" DEVELOPMENT OF FUTURE CAPACITY (BOTH IN CAPITAL GOODS AND IN RAW MATERIALS) FOR BRAZILIAN ENTREPRENEURS. THE INDUSTRIAL DEVELOPMENT COUNCIL (CDI) -- AN INTERMINISTERIAL GROUP STAFFED WITHIN THE MINISTRY OF COMMERCE AND INDUSTRY (MIC) -- HAS BEEN THE FORUM OF MUCH OF THE DEBATE. THE CDI DECIDES ON CONCESSION OF VARIOUS FISCAL AND OTHER INCENTIVES FOR INDUSTRIAL PROJECTS UNDERTAKEN BY FOREIGN AS WELL AS DOMESTIC INVESTORS. IN RECENT MONTHS, BRAZILIAN MANUFACTURERS HAVE COMPLAINED BITTERLY ABOUT SEVERAL KEY PROJECTS APPROVED BY THE CDI, INCLUDING THREE FROM WEST GERMAN FIRMS (KRUPP, BAYER, AND DEMAG) AND A LARGE JAPANESE PLANT (COMPANHIA BRASILEIRA DE CALDEIRAS, WHICH IS CONTROLLED BY MITSUBISHI). ALL OF THESE PROJECTS WERE APPROVED FOLLOWING THE DIRECT INTERVENTION BY VARIOUS CABINET MINISTERS.

3. CDI'S APPROVAL IS IMPORTANT FOR AMNY PROJECTS (AND REQUIRED BY ALL PROJECTS BENEFITING FROM CDI INCENTIVES), THOUGH NOT VITAL. SOME US DOLS 400 MILLION IN FOREIGN INVESTMENT (SEE REFAIRGRAM) WAS APPROVED FOR INCENTIVES IN 1976. THIS AMOUNTED TO LESS THAN HALF OF NEW FOREIGN INVESTMENT PROPOSED FOR THE PERIOD. US BUSINESSMEN IN BRAZIL BELIEVE THAT CDI HAS BECOME MUCH MORE CRITICAL TOWARD FOREIGN-OWNED PROJECTS; IN DEMANDING COMMITMENTS TO EXPORTS, LIMITS ON TECHNOLOGY IMPORTS, AND AN INCREASED BRAZILIAN SHARE IN PROPOSED VENTURES. RECENTLY, CDI WAS REPORTED TO HAVE REJECTED IBM'S REQUEST FOR INCENTIVES TO PRO-

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DUCE MINI-COMPUTERS (THE 3 SYSTEM/27#), ALLEGEDLY BECAUSE IT WAS "RESERVING" THIS FIELD FOR A DOMESTIC PRODUCER (PRESUMABLY THE GOB-OWNED COMPUTADORAS BRASILEIRAS, COBRA). TO BE SURE, BRAZIL HAS ONLY MINIMAL CONTROLS OVER FOREIGN INVESTMENT, MAINLY REGISTRATION WITH THE CENTRAL BANK IN ORDER TO REMIT DIVIDENDS. NONETHELESS, IN A CLOSELY-COMPETITIVE FIELD AND GIVEN CERTAIN PRICE DISTORTIONS IN THE BRAZILIAN ECONOMY (E.G., THOSE FORCED BY IMPORT RESTRICTIONS AND BY HIGH LOCAL CONTENT REQUIREMENTS), FISCAL INCENTIVES CAN MAKE A PROJECT VIABLE OR NON-VIABLE. WORSE, IF A DOMESTIC COMPETITOR RECEIVES INCENTIVES AND A MULTINATIONAL DOES NOT, THE "FREEDOM TO INVEST" MAY BECOME ILLUSORY.

4. SEVERAL WEEKS AGO, THE CDI'S SECRETARY-GENERAL, TAYLOR FRAZAO, BECAME INVOLVED IN A HIGHLY-PUBLICIZED DEBATE OVER WHETHER CDI SHOULD HAVE A "VETO" OVER FOREIGN INVESTMENT PROJECTS OVER WHICH IT HAD NO

JURISDICTION (BECAUSE THE FOREIGN INVESTOR HAD NOT ASKED FOR SPECIAL CDI INCENTIVES). BRAZILIAN ENTREPRENEURS CONTENTED THAT SOME FOREIGN VENTURES COULD PROCEED EVEN WITHOUT INCENTIVES AND THUS COULD "PULVERIZE" EMERGING CAPITAL-GOODS SECTORS BY DAMAGING EXISTING BRAZILIAN-OWNED PRODUCERS (COMMENT: MANY OF WHICH ARE INEFFICIENT).

5. IN EARLY MARCH, THE NEW INDUSTRY AND COMMERCE MINISTER, ANGELO CALMON DE SA, SEEMED TO SUPPORT THE CONCERN BY INDICATING THE NEED FOR "RESERVING MARKETS FOR NATIONAL INTERESTS." THE OFTEN OUTSPOKEN BRAZILIAN HEAVY EQUIPMENT INDUSTRY

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C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 2552

ASSOCIATION (ABDIB) URGED THE "REFORMULATION" OF CDI BY GIVING IT ADDITIONAL CONTROLS. FRAZAO TOOK NO PUBLIC POSITION ON THESE DEMANDS. THE DEBATE SURGED ON UNTIL MARCH 12, WHEN FRAZAO (WHO HAD BEEN RECONFIRMED IN HIS POST UPON CALMON'S TAKEOVER AS MINISTER ONLY WEEKS BEFORE) WAS ABRUPTLY DISMISSED. (CONGEN RIO HAD SPOKEN WITH FRAZAO ONLY THE PRECEDING DAY, CONFIRMING AN APPOINTMENT FOR LAST WEEK, AND HE SEEMED STILL CONFIDENT OF HIS ROLE AT THAT TIME).

6. ON MARCH 15, FRAZAO WAS REPLACED BY GUILLERME HATAB, THE HEAD OF MIC'S NATIONAL INDUSTRIAL PROPERTY INSTITUTE (INPI), WHICH IS BOTH A PATENT OFFICE AND

THE REGISTRY FOR TECHNOLOGY TRANSFERS. (COMMENT: HATAB HAS A REPUTATION IN THE AMERICAN BUSINESS COMMUNITY OF BEING TOUGH AND NATIONALISTIC. AS HEAD OF THE ENTITY THAT APPROVES ROYALTY ARRANGEMENTS WITH INTERNATIONAL TECHNOLOGY SUPPLIERS, HATAB HAS BEEN AS MUCH OF A FRUSTRATION FOR MULTINATIONALS AS FRAZAO HAD BEEN IN HIS SEPARATE CAPACITY. COMPLICATING MATTERS, INPI AND CDI BOTH SUFFER FROM

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A LACK OF TECHNICIANS CAPABLE OF ANALYZING ADEQUATELY THE VENTURES PRESENTED TO THEM.) AT THE SAME TIME, VARIOUS RUMORS CIRCULATED OVER THE REASONS FOR FRAZAO'S DISMISSAL, PARTICULARLY THAT HE HAD BECOME UNACCEPTABLE BY LOCAL INDUSTRIALISTS FOR HIS SUPPOSED ROLE IN APPROVING KRUPP AND OTHER MULTINATIONAL PROJECTS. NO OFFICIAL EXPLANATION WAS GIVEN, THOUGH SOME OF THE RUMORS HAVE BEEN DENIED BY CALMON DE SA AND OTHER OFFICIALS.

7. BUSINESSMEN AND OFFICIALS WITH WHOM CONGEN RIO HAS DISCUSSED THE CDI SITUATION CONFIRM THAT FRAZAO'S QUIET BUT DETERMINED SUPPORT FOR A BROADER CDI ROLE ON FOREIGN INVESTMENT (WHETHER A "VETO" POWER OR A MORE-LIMITED ROLE) WAS THE REASON FOR HIS DISMISSAL. NONETHELESS, HE WAS SCARCELY ALONE WITHIN THE GOB, AND THE REASONS FOR SO QUICK A DEPARTURE REMAIN UNCLEAR.

8. COMMENT: THE GOB IS DOUBTLESSLY TRYING TO BALANCE ITS LONG-STANDING COMMITMENT TO AN "OPEN DOOR" TO FOREIGN INVESTORS WITH THE CONCERNS OF BRAZILIAN ENTREPRENEURS. AS A RESULT, WHEN ANNOUNCING HATAB'S DESIGNATION, CALMON DE SA REASSERTED THE GOB'S INTEREST IN INTERNATIONAL FIRMS EVEN AS HE OBSERVED THAT EFFORTS WOULD BE MADE TO PROTECT BRAZILIAN FIRMS IN SENSITIVE FIELDS LIKE CAPITAL GOODS AND RAW MATERIALS. WE CONJECTURE THAT FRAZAO WAS DISMISSED BECAUSE THE GOB FEARED THAT HIS DEMAND FOR OPEN VETO POWER OVER FOREIGN INVESTMENT WOULD HAVE TENDED TO FRIGHTEN IT AWAY. FOREIGN INVESTMENT IS, OF COURSE, CRITICAL TO BRAZIL'S ECONOMIC AND BALANCE-OF-PAYMENTS STRATEGIES. NEVERTHELESS, THE GOB IS NOT LIKELY TO REMAIN ENTIRELY INSENSITIVE TO PRESSURES BY BRAZILIAN BUSINESSMEN FOR:

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-- ELIMINATION OF, OR COMPENSATION FOR THE FINANCIAL AND OTHER ADVANTAGES THAT FOREIGN INVESTORS ARE PERCEIVED TO HAVE (E.G., BETTER ACCESS TO FOREIGN CREDIT). MEASURES ANNOUNCED ON MARCH 30 ARE AN OBVIOUS RESPONSE TO THOSE PRESSURES (SEPTTEL).

9. THE BIG, POWERFUL, POLITICALLY-OUTSPOKEN, LARGELY PRIVATE-OWNED CAPITAL GOODS INDUSTRY HAS LED CAMPAIGNS OVER THE PAST TWO YEARS FOR MORE OFFICIALLY-BESTOWED ADVANTAGES, SOME AT THE EXPENSE OF FOREIGN-OWNED COMPETITORS, POTENTIAL OR ACTUAL. PRINCIPAL CAMPAIGNS, SOME WAGED STRIDENTLY IN THE PRESS, HAVE BEEN:
-- TO REDUCE THE ROLE OF THE STATE IN THE INDUSTRIAL SECTOR;
-- TO SPUR HIGHER REQUIREMENTS FOR LOCALLY-PRODUCED CAPITAL GOODS EQUIPMENT IN INVESTMENT PROJECTS;
-- TO MAINTAIN AND INCREASE THE FLOW OF SUBSIDIZED CREDIT, PARTICULARLY THROUGH THE NATIONAL DEVELOPMENT BANK (BNDE);
-- AND MOST RECENTLY, TO URGE GREATER GOVERNMENTAL CONTROL OVER FOREIGN INVESTORS. TO AN EXTENT, EACH CAMPAIGN HAS HAD SOME SUCCESS, AT COSTS TO FOREIGN INVESTORS, CONSUMERS, OTHER INDUSTRIES, AND THE FEDERAL TREASURY. ALTHOUGH THE SAO PAULO INDUSTRIALISTS, MANY OF THE MOST POWERFUL OF WHICH ARE IN THE CAPITAL GOODS INDUSTRY, MIGHT NOT BE THE POLITICAL FORCE THEY ONCE WERE, THEY ARE STILL TO BE RECKONED WITH. THE COINCIDENCE OF RISING NATIONALISM IN BRAZIL, WITH ITS IMPLICATIONS FOR ECONOMIC POLICIES, HAS PROVIDED ALLIED POLITICAL FORCES FOR THOSE INDUSTRIALISTS WHO FEAR COMPETITION FROM FOREIGN INVESTORS.

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10. CERTAINLY GOB POLICY WILL REMAIN, IN PRINCIPLE, TO ATTRACT FOREIGN INVESTMENT. IN THE CURRENT CLIMATE IN BRAZIL, HOWEVER, WE ARE LIKELY TO SEE A CONTINUED STRENGTHENING OF THOSE FORCES THAT SEEK TO RESTRICT FOREIGN INVESTORS' FREEDOM OF ACTION.

11. THIS MESSAGE WAS PREPARED BY CONGEN RIO WITH CONTRIBUTIONS FROM THE COMMERCIAL COUNSELOR IN SAO PAULO AND FROM THE EMBASSY.
CRIMMINS

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Message Attributes

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